

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

DODE-00 INR-07 NSAE-00 PA-02 USIA-15 PRS-01 COME-00

FRB-01 XMB-04 OPIC-06 LAB-04 SIL-01 L-02 H-02 /111 W

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R 201737Z DEC 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6950

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 19593

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING DECEMBER
19)

REF.: BONN 16449, BONN 19215, BONN 19505

1. DISCOUNT AND LOMBARD RATES REDUCED: WHILE NOT UN-
EXPECTED THE DECISION BY THE BUNDESBANK TO REDUCE THE
DISCOUNT AND LOMBARD RATES BY 0.5 PERCENT EFFECTIVE
DECEMBER 20 TO 6 AND 8 PERCENT, RESPECTIVELY, WAS MET
WITH SOME SURPRISE SINCE BANKERS HAD ANTICIPATED A
POSSIBLE REDUCTION IN THE 2 PERCENT DIFFERENTIAL BE-
TWEEN THE TWO RATES. BUNDESBANK PRESIDENT KLASSEN SAID
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HOWEVER THAT LIQUIDITY NEEDS IN JANUARY SHOULD BE MET

SINCE THE DECISION, BARRING INFLUENCES FROM ABROAD, WILL PROVIDE AN ESTIMATED DM 3 BILLION IN LIQUIDITY TO THE DOMESTIC ECONOMY. ALTHOUGH KLASSEN DID NOT EXCLUDE POSSIBLE FURTHER RATE REDUCTIONS, HE CLASSIFIED THE DECISION AS "CAUTIOUS," SUPPORTIVE OF THE GOVERNMENT'S STIMULATING EFFORTS, AND AS ONE WHICH WAS MINDFUL OF INTERNATIONAL INTEREST RATE DEVELOPMENTS.

2. HERSTATT LIQUIDATION ASSURED: AFTER SIX MONTHS OF HEATED BARGAINING IN EFFORTS TO PREVENT EXTENDED BANKRUPTCY PROCEEDINGS AGREEMENT HAS BEEN REACHED WITH CHIEF SHAREHOLDER DR. HANS GERLING WHICH WILL PAY THE INDIVIDUAL CREDITORS 65 PERCENT OF THEIR HERSTATT UNCLASSIFIED

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CLAIMS, FOREIGN BANKS AND COMMUNITIES 55 PERCENT AND DOMESTIC BANKS 45 PERCENT. THE SETTLEMENT WAS REACHED THIS WEEK AND FOLLOWS GERLING'S SALE OF 51 PERCENT OF HIS INSURANCE EMPIRE TO THE ZURICH INSURANCE COMPANY AND A GROUP OF 31 GERMAN ENTERPRISES AND DM 100 BILLION LOAN FROM A GERMAN BANKING CONSORTIUM AGAINST THE SECURITY OF GERLING'S REMAINING INSURANCE HOLDINGS. THE SALE AND LOAN HAD PROVIDED GERLING WITH A DM 200 MILLION

FUND WHICH ENABLED HIM TO COMPLY WITH THE EARLIER SETTLEMENT PROPOSALS (SEE BONN 16649). INITIAL PAYMENTS ARE TO BEGIN WITHIN SIX WEEKS.

3. FOREIGN EXCHANGE MARKET: THE DOLLAR WEAKENED THROUGHOUT MOST OF THE WEEK, FALLING ALMOST A PERCENT AND A HALF FROM ITS FRIDAY THE 13TH FIXING, BUT REBOUNDED ON THE FINAL REPORTING DAY. ON DECEMBER 18 THE DOLLAR REACHED ITS LOWEST POINT SINCE MAY 14 WHEN IT WAS FIXED AT DM 2.4295. THE BUNDESBANK INTERVENED WITH PURCHASES

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FRB-01 XMB-04 OPIC-06 LAB-04 SIL-01 L-02 H-02 /111 W

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 6951

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

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OF \$10 MILLION ON TUESDAY. DURING THE REPORTING WEEK

SPOT AND FORWARD DOLLARS DEVELOPED AS FOLLOWS:

		FORWARD DOLLARS (DISCOUNTS IN PCT. P.A.)	
SPOT DOLLARS		ONE-MONTH	THREE-MONTH
DEC 13	DM 2.4605	2.2	1.8
16	2.4545	1.7	1.7
17	2.4350	1.2	1.6
18	2.4265	0.7	1.7
19	2.4555	1.2	2.0

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WITHIN THE JOINT FLOAT ALL CURRENCIES WERE BELOW THEIR UPPER DEUTSCHEMARK INTERVENTION RATES. WITH THE EXCEPTION OF THE DUTCH GUILDER AND THE BELGIAN FRANC ALL FLOAT CURRENCIES REMAINED BELOW THEIR DEUTSCHEMARK CENTRAL RATE.

4. MONEY MARKET: DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH MONEY	THREE-MONTH MONEY
DEC 13	8.4-8.5	8.6-8.8	8.6-8.8
16	8.5-8.6	8.6-8.8	8.5-8.8
17	8.5-8.7	8.6-8.8	8.5-8.8
18	8.5-8.7	8.6-8.8	8.5-8.8
19	8.5-8.7	8.6-8.8	8.5-8.8

5. MONETARY RESERVES: IN THE FIRST WEEK OF DECEMBER (DECEMBER 1-7) BUNDESBANK MONETARY RESERVES DECLINED SLIGHTLY BY DM 0.1 BILLION TO DM 88.9 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 208 MILLION, GERMANY'S IMF GOLD TRANCHE POSITION BY DM 9 MILLION AND GROSS LIABILITIES BY DM 117 MILLION.

6. BANK LIQUIDITY: DURING THE FIRST WEEK OF DECEMBER BANK LIQUIDITY INCREASED BY DM 0.9 BILLION. THE MAJOR FACTOR INCREASING LIQUIDITY WAS A DM 3.5 BILLION DECLINE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK. FACTORS REDUCING LIQUIDITY INCLUDE AN INCREASE IN BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK OF DM 0.5 BILLION AND AN INCREASE IN CURRENCY IN CIRCULATION OF DM 0.4 BILLION. OTHER FACTORS REDUCED LIQUIDITY BY DM 1.6 BILLION, NET. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE LOMBARD BORROWINGS BY DM 1.2 BILLION. AT THE SAME TIME THEY INCREASED REDISCOUNT BORROWINGS BY DM 0.3 BILLION.

7. BOND MARKET: DURING THE REPORTING WEEK THE FAZ
AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC
BONDS DEVELOPED AS FOLLOWS:

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8 PERCENT 7 PERCENT 6 PERCENT

DEC 13	10.42	10.12	9.85
16	10.44	10.12	9.35
17	10.41	10.12	9.48
18	10.42	10.13	9.86
19	10.39	10.09	9.84

ON DECEMBER 13 THE FINAL CONDITIONS OF THE DM 350
MILLION FEDERAL POST OFFICE LOAN (SEE BONN 19215)
WERE ESTABLISHED (COUPON 9.5 PERCENT; ISSUE PRICE 99
PERCENT; MATURITY 8 YEARS; YIELD TO MATURITY 9.69 PER-
CENT). DM 300 MILLION OF THIS LOAN WILL BE OFFERED
FOR SALE BETWEEN DECEMBER 17 AND 19. THE STATE OF NEW
ZEALAND THROUGH A BANK CONSORTIUM LED BY THE COMMERZ-
BANK WILL ISSUE A DM 100 LOAN. ANTICIPATED CONDITIONS
ARE: INTEREST RATE OF 9.75 PERCENT WITH AN ANNUAL
COUPON, MATURITY 7 YEARS. THE FINAL CONDITIONS WILL
PROBABLY BE ESTABLISHED ON JANUARY 8. THE RETURNS ON
NEW FRG TREASURY BILLS AS EXPECTED WILL BE LOWER THAN
BEFORE. TYPE A (SIX YEAR MATURITY, YEARLY PAYMENTS)
WILL NOW BE AT 8.98 PERCENT COMPARED WITH THE PRE-
VIOUS 9.7L AND TYPE B (7 YEAR MATURITY, ACCUMULATIVE
INTEREST) WILL NOW BE OPENED AT 9.21 COMPARED TO THE
PREVIOUS 9.99 PERCENT. THESE RATES ARE EFFECTIVE WITH
THE SALES ON DECEMBER 30.

HILLENBRAND

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